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The Fraud at High Flying Corporation: Developing Audit Interview Skills

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Data files (Word and Excel files with the case materials) are available upon request.

The Fraud at High Flying Corporation: Developing Audit Interview Skills

ABSTRACT

This instructional case is designed to simulate a real world audit situation where red flags, primarily related to the existence assertion and related party transactions, have been uncovered and additional information must be obtained from the client, High Flying Corporation. Each student individually interviews a client official who is portrayed by a practicing accountant from the business community. This case provides students with an opportunity to make real-time judgments regarding the validity and reasonableness of information provided by a client and to determine an appropriate course of action, while simultaneously dealing with client behaviors intended to evoke negative emotional reactions and to undermine their confidence. This case is appropriate for advanced auditing at the undergraduate level, forensic accounting at the undergraduate or graduate level, or introductory or advanced auditing at the graduate level.

Keywords: *client interview; audit; forensic accounting; fraud*

I. INTRODUCTION

This case simulates an audit client interview. Based on an actual audit fraud, the case includes several “red flags” for students to identify and investigate. Analytical procedures involving both financial and non-financial data are useful in helping students identify key issues in the case. Students need to ask questions effectively in order to make professional judgments about the reasonableness of the financial statements and the information provided by the client; simultaneously, students experience real time pressure and client behaviors intended to evoke negative emotional reactions and undermine their confidence.

Each student interviews a client portrayed by a practicing accountant from the business community. The accountants portraying the client are asked to display behaviors that clients seeking to conceal information might actually exhibit. The participation of practicing accountants helps to simulate a realistic audit environment where young auditors are expected to perform under pressure.

Each student's interview is videotaped. The instructors review each interview and select one or more excerpts to include in a DVD that will be used to demonstrate both effective and ineffective inquiry techniques during a follow-up session. Selected excerpts are intended to capture the complex dynamics that may occur between the client and the auditor during an interview particularly when the client is attempting to conceal a fraud. Excerpts usually demonstrate: (1) the client evading questions by discussing unrelated issues; (2) the client providing information that is inconsistent with data in the workpapers; (3) the client making statements which conflict with prior statements; (4) the students leading the client, answering their own questions or failing to properly ask follow-up questions; (5) the students appropriately redirecting the dialogue; (6) the students asking strong follow-up questions; and (7) the students maintaining a calm professional demeanor. The DVD with excerpts is shown in a follow-up session that provides students with constructive feedback on their performance and helps them reflect on their experience.

This case introduces effective client inquiry skills and the concept of emotional intelligence through a role playing exercise. Students practice and analyze effective interviewing techniques and, as importantly, identify and analyze ineffective techniques. The case can also be used as a written assignment, instead of or in conjunction with an interview simulation.

The paper is organized into two major sections. In the first section, we give an overview of the case and provide the case materials. These materials include client information, financial statements and various details relevant to the audit. (Note: the data files, which are Word and Excel files, are available upon request from the corresponding author). In the second section, we present the teaching notes, which include the learning objectives, instructional approach, and implementation ideas. The teaching notes also give case instructions, suggested assignments and solutions, and excerpts from representative interviews. (Note: the teaching notes are available upon request from the corresponding author).

II. CASE MATERIALS

Purpose of Case

The purpose of this case is for you to assume the role of an audit senior. As such, you will focus on cash, accounts receivable, sales revenue and property, plant and equipment for a client with a fiscal year-end of June 30, 2014. You will be given background information, financial statements, various schedules, a bank statement and cash confirmation, and a charter agreement.

List of Case Materials

The list of case materials is as follows:

Exhibit A: Memorandum for Planning Meeting

Exhibit B: Draft of President's Letter

Exhibit C: Audit Program—Cash

Exhibit D: Audit Program—Sales Revenue and Accounts Receivable

Exhibit E: Statements of Income

Exhibit F: Balance Sheets

Exhibit G: Schedule of Trade Accounts Receivable

Exhibit H: Schedule of Monthly Sales Revenue for Year ending June 30, 2014

Exhibit I: Schedule of Sales Revenue for the Month ending July 31, 2013

Exhibit J: Schedule of Sales Revenue for the Month ending June 30, 2014

Exhibit K: Schedule of Aircraft

Exhibit L: Bank Statement and Standard Bank Confirmation

Exhibit M: Terms and Conditions for all Charter Agreements

Exhibit N: First Assignment for Case

Exhibit O: Second Assignment for Case

Exhibit P: Third Assignment for Case

Overview of Client

The client, High Flying Charter Company (HF), is a privately-held aviation company based at Holman Field, an airport near downtown St. Paul, Minnesota. Its main line of business is providing air charters for executives and groups, primarily to four large customers. HF has nineteen employees. The major shareholders are also employed as top executives. The primary contacts at the client are Mr. Calvin Kemper, Chief Executive Officer (CEO) and Ms. Valerie Walsh, Chief Financial Officer (CFO). More information on the client is found in Exhibits A and B.

The CPA Firm

Smith Franklin CPAs LLP, a regional CPA firm, specializes in small manufacturers and distributors. This is the first year that the firm has conducted HF's audit. Larry Lemay is the audit partner. More information on the CPA firm is found in Exhibit A.

Purpose of Audit

The client needs an audit as a condition of its debt agreement and in anticipation of seeking new private investors. More information on the audit is found in Exhibit A.

Industry Information

The charter flight industry is greatly affected by economic conditions and travel related trends. The industry has started to recover after some tough years, and industry revenues are expected to grow during the fiscal year ending June 30, 2014. The audit team will need to assess how the market pressures faced by the industry will impact HF's ability to achieve its projected aggressive revenue growth. In addition, the industry faces significant regulation by government agencies. More information about the industry is found in Exhibit A.

Assignments

Interview Format. Your professor may require you to prepare for and conduct an interview of the client contact. If so, there are two related assignments. The first assignment, Exhibit N, is an individual assignment. It involves preparing for an interview with someone portraying either Mr. Kemper or Ms. Walsh and conducting this interview. To prepare for this interview, you should carefully review and analyze the Exhibits, looking for unusual amounts, patterns and activities, while considering the client and the industry. Compile a list of questions to ask the client person. When you conduct the interview, take notes. Be sure to follow up on answers that are confusing, incomplete or inconsistent.

The second assignment, Exhibit O, is a group assignment. It involves reflecting on the information received in the interview and identifying additional questions and concerns.

Written Format. Your professor may require some written evaluation and analysis of the case materials, in addition to, or in place of, preparing for and conducting an interview of the client

contact. If so, there is one related assignment, Exhibit P. In this individual assignment, you are asked to identify and analyze unusual amounts, patterns and activities, and to present your findings in a written paper.

Exhibit A

Smith Franklin CPAs LLP

High Flying Charter Company

Memorandum for Planning Meeting

FYE June 30, 2014

General

You have been assigned as the audit senior on High Flying Charter Company (HF). It is July 10, 2014, and you are starting your audit fieldwork.

Audit Firm Information

Smith Franklin CPAs LLP is a regional CPA firm with three offices in the Midwest. The firm has 100 professional staff in assurance, taxation and litigation support. The firm specializes in small manufacturers and distributors. This is the first year that the firm has conducted HF's audit. Previously, the audit was conducted by a very small local public accounting firm.

The client needs an audit for its bank, as a condition of its debt agreement. It also wants an audit because it will be seeking private investors. The usual engagement letter, outlining the responsibilities of the client and the auditors, has been obtained. An important point in the engagement letter is that the audit should be completed by August 1, 2014, as required by the bank.

The audit partner, Larry Lemay, is known for great client service. He is all about client service. Client service is #1 with him. Even though he is a favorite with clients, he also expects quality audit work.

Client Information

HF is an aviation company based at Holman Field, just south of downtown St. Paul, Minnesota. Its main line of business is providing air charters for executives and groups, primarily in Minnesota, Wisconsin and Illinois. The company has been experiencing good growth despite fluctuating fuel oil prices and a tough economy.

Mr. Calvin Kemper, CEO, has explained that HF primarily works with several large corporate clients. These clients do not want the expense and hassle of maintaining their own airplanes, so they rely on HF to fly their executives to various cities in the Midwest. The executives typically fly to branch offices or factories, and then fly back to corporate headquarters. Four major customers are: Big Builders Buying (BBB); Commercial Money and Finance (CFM); National Air Service (NAS); and PIP (Progressive Industrial Products).

The client has eight employees in the office, five licensed pilots, five attendants, and one baggage handler. Repairs and maintenance services are contracted out to an unrelated company, Airplane UpKeep, Inc.

HF is a privately-held corporation. The major shareholders are also top executives.

Mr. Kemper displays his pilot licenses in his office, which indicate that he is licensed to fly twenty types of large airplanes. His employees have mentioned that, after returning from the Air Force, he started several successful businesses before launching HF in 2004. Recently, in *The Aviation Reporter*, he stated, “I earned my first pilot license when I was only 16. Anything related to aviation, that’s where I want to be.” When he engaged the auditing firm he explained that he earned his aviation management degree from the University of North Dakota and a MBA from Northwestern University.

Valerie Walsh is the CFO. She has been with HF since 2004, first as a secretary and office manager, then as the accountant, then as CFO. She loves to fly, although she is not a licensed pilot. In a feature article in *Take Off*, she explained the company’s business model: “Well, we aim for the stars, so to speak. We look towards consistent, yet aggressive growth over the next five years. We see an untapped market in small to medium sized businesses, who need to get their executives here and there, but who do not want the hassle of maintaining their own fleets of aircraft.” Mr. Kemper provided a little information about Ms. Walsh’s background. She holds an economics degree from Richmond College and an MBA from the University of Minnesota—Duluth.

Industry Information

The Charter Flights Industry, which provides non-scheduled air transport services for passengers and cargo, has started to recover after a 12.6% decline in revenues in 2009. The 2009 decline was primarily attributable to an overall decrease in travel spending, particularly among corporate clients. Economic conditions and travel related trends are the key factors driving the Charter Flight Industry.

In the fiscal year ending June 30, 2014, industry revenues are expected to grow 4.8% due to the recovery of corporate profits and per capita disposable income. However, during the prior five-year period the number of companies operating in the Charter Flight Industry declined by 1.7% annually. The industry is highly sensitive to changing conditions in the corporate sector. A large portion of revenues come from business trips carrying executives to outlying locations. Since 2009 corporate clients have taken a razor to their budgets resulting in drastic cuts to funds for chartered and private flights. In 2011, indications of an improving economy eased fears surrounding the state of the economy resulting in a small increase in the number of business people and consumers traveling. This trend has continued into 2012 and 2013. Despite these trends, industry profitability and demand is threatened by rising fuel prices and the corresponding increase in charter flight costs.

The audit team will need to consider the possible impact of the market pressure the industry has and continues to experience on HF’s ability to achieve their aggressive revenue growth and on

HF's ability to maintain their premium charter pricing. The reasonableness of industry specific non-financial data such as aircraft capacity and range should also be considered.

HF operates under Federal Aviation Regulations, Part 135. Part 135 is applicable to HF, because, as a smaller charter airline, it provides transportation to persons for compensation. HF has a Part 135 commercial operating certificate. Mr. Kemper indicates that the company is currently in the process of applying for a 121 Certificate which is required for higher capacity aircraft.

Board of Directors

Calvin C. Kemper, Chairman of the Board, CEO and President

Michael L. Medford, Vice Chairman and Executive Vice President

Valerie Hansen Walsh, CFO

Kirkland Jones, COO

Margaret Wilmington

Yvette Kemper Dupree

Exhibit B

Draft of President's Letter

PRESIDENT'S LETTER (Draft for Auditors)



To Our Shareholders:

We are pleased to report that our projections and previous predictions of greater revenues and profits for the fiscal year 2014 have not only been realized for High Flying Charter Company, but have exceeded our expectations significantly. Several plans and projects presently in progress at HFCC lead us to believe that 2015 should not only be a record year in revenues and profits but also greatly enhance HFCC's position in the marketplace of general aviation.

We are presently involved in the following projects:

Application for our own 121 certificate to allow us to be a commercial non-scheduled air carrier. This would allow us to conduct large group charters in the Dassault Falcon 2000 XL, carrying over 150 passengers. These aircraft will be operated at full capacity on longer flights from all parts of the Midwest United States into Europe, Japan, the Cayman Islands and Mexico.

Continuation of computer system upgrade to make it possible to implement growth plans. We have added hardware and software capacity to help track our growth in the future. We feel that accurate cost accounting is the key to our success in the charter business. Most charter operators think of accounting as a necessary evil, but we consider it a sound business practice necessary for an efficient operation. Our accounting system also allows us to maintain strict control over maintenance parts inventory, aviation fuel, and pilot supplies.

Planning to seek approval to be a FAA Certified Helicopter Repair Station. We expect to expand and improve our maintenance facilities to accommodate this approval, when received.

These are a few of our projects in progress. We are anticipating a very healthy new fiscal year. You may be assured that we will proceed with caution as our growth has been rapid. Our dedication to you, our employees and our customers, is of utmost importance here at HFCC.

We sincerely thank you for your past support and your belief in us.

Calvin Kemper

Exhibit C

Smith Franklin CPAs LLP

High Flying Charter Company

Audit Program—Cash

June 30, 2014

Audit Steps

Smith Franklin, CPAs, LLP Cash Audit Program Client: High Flying Charter Company Year-End: 06/30/2014	Initial and Date
(1) Check the mathematical accuracy of all schedules.	
(2) Trace deposits in transit on the bank reconciliation to the cash receipts journal and the cutoff bank statement. Note any discrepancies.	
(3) Trace outstanding checks on the bank reconciliation to the cash disbursements journal and the cutoff bank statement. Review the copies of the cancelled checks if necessary. Note any discrepancies.	
(4) Review the standard bank confirmation for any other activity that needs to be reflected in the financial statements.	
(5) Review the activity reflected in the bank reconciliation for reasonableness.	
(6) Identify and explain any problems you find with the bank reconciliation and supporting detail.	
(7) Discuss the problems you have identified with the client. Consider what questions you should ask. Consider your satisfaction with the answers.	
(8) State your conclusion about this account. If any adjustments are needed, document the reasons and amounts involved.	

Exhibit D

Smith Franklin CPAs LLP

High Flying Charter Company

Audit Program—Sales Revenue and Accounts Receivable

June 30, 2014

Smith Franklin, CPAs, LLP Accounts Receivable and Sales Revenue Audit Program Client: High Flying Charter Company Year-End: 06/30/2014	Initial and Date
--	------------------------

(1) Check the mathematical accuracy of all schedules.	
(2) Trace a sample of sales revenue amounts to underlying documentation. This documentation includes the sales contracts (charter agreements).	
(3) Trace collections on accounts receivable made around the end of June 2014 to deposits in transit on the bank statement.	
(4) If cash sales are made around the end of June 2014, trace the cash receipts to deposits in transit on the bank statement.	
(5) Review the activity reflected in sales revenue and accounts receivable for reasonableness.	
(6) Identify and explain any problems you find with the sales revenue, accounts receivable and supporting detail.	
(7) Discuss the problems you have identified with the client. Consider what questions you should ask. Consider your satisfaction with the answers.	
(8) State your conclusion about these accounts. If any adjustments are needed, document the reasons and amounts involved.	

Exhibit E
High Flying Charter Company
Statements of Income
For the Years ended June 30



	(unaudited)	
	2014	2013
Net Sales Revenue	\$80,387,340	\$31,585,050
Expenses		
Cost of Sales	67,650,300	26,082,650
Selling, general administrative	6,646,330	4,142,950
Interest - net	415,180	177,890
Total Expenses	74,711,810	30,403,490
Income before income taxes	5,675,530	1,181,560
Income taxes	2,490,000	130,000
Net Income	<u>\$3,185,530</u>	<u>\$1,051,560</u>
EPS	\$0.27	\$0.14

Exhibit F
High Flying Charter Company
Balance Sheets
June 30



ASSETS

	(unaudited)	
	2014	2013
Current assets:		
Cash (including cash in escrow of \$500,000)	\$7,113,890	\$168,050
Trade accounts receivable	3,148,920	2,951,440
Insurance claim receivable	—	1,512,740
Inventories	1,523,030	4,142,870
Prepaid expenses	2,079,890	854,930
Total Current Assets	<u>\$13,865,730</u>	<u>\$ 9,630,030</u>
Property, plant & equipment, at cost		
Buildings and improvements	\$4,545,810	\$4,477,930
Aircraft	14,896,260	136,900
Furniture & equipment	2,478,610	289,230
Vehicles	1,110,570	575,890
Aircraft purchase deposits	3,200,000	—
	<u>26,231,250</u>	<u>5,479,950</u>
Less depreciation and amortization	1,509,490	653,470
Total PPE, net	<u>24,721,760</u>	<u>4,826,480</u>
Other Assets	<u>956,300</u>	<u>—</u>
Total Assets	<u><u>\$39,543,790</u></u>	<u><u>\$14,456,510</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	(unaudited) 2014	2013
Current liabilities:		
Bank overdraft	—	\$430,770
Notes payable	\$4,477,430	2,441,410
Current portion of long-term debt	241,310	2,439,340
Accounts payable	870,500	1,323,090
Accrued expenses	445,660	287,970
Income taxes	2,259,720	—
Total Current Liabilities	8,294,620	6,922,580
Deferred income taxes	190,000	—
Long-term debt	7,668,870	2,307,220
Commitments and contingencies	—	—
Total Noncurrent Liabilities	7,858,870	2,307,220
Stockholders' equity:		
Common stock, \$.01 par value; authorized - 30,000,000 shares; issued and outstanding - 14,653,800 shares in 2014 and 9,000,000 shares in 2013	146,540	90,000
Paid in capital	20,528,230	5,606,710
Retained Earnings (deficit)	2,715,530	(470,000)
Total Stockholders' Equity	23,390,300	5,226,710
Total Liabilities and Stockholders' Equity	\$39,543,790	\$14,456,510

Exhibit G
High Flying Charter Company
Schedule of Trade Accounts Receivable
June 30



	(unaudited)	
	2014	2013
National Air Service	<u>3,148,920</u>	<u>2,951,440</u>
Total Trade Accounts Receivable	<u>\$3,148,920</u>	<u>\$ 2,951,440</u>

Exhibit H
High Flying Charter Corporation
Schedule of Monthly Sales Revenue
For the Year ending June 30, 2014



<u>Month</u>	<u>Revenue</u>
July, 2013	\$ 5,960,300
August, 2013	5,625,270
September, 2013	5,992,160
October, 2013	5,886,300
November, 2013	5,841,920
December, 2013	6,583,000
January, 2014	6,623,100
February, 2014	6,933,900
March, 2014	6,965,590
April, 2014	7,622,850
May, 2014	7,988,100
June, 2014	<u>8,364,850</u>
Total	<u>\$ 80,387,340</u>

Exhibit I
High Flying Charter Corporation
Schedule of Sales Revenue
For the Month ending July 31, 2013



<u>Date</u>	<u>Customer/Contact</u>	<u>Description</u>	<u>Amount</u>	<u>FAA Flight Plan</u>
1-Jul	NAS/Y. Dupree	Round Trip St. P/GraCay	\$200,700	✓
1-Jul	NAS/Y. Dupree	Round Trip GraCay/St. P	234,200	✓
2-Jul	BBB/B. Wilson	Round Trip St. P/Chicago	189,500	✓
2-Jul	CFM/T. Smither	One Way St. P/Milwau	94,700	✓
3-Jul	PIP/C. Nottingham	One Way St. P/Peoria	87,300	✓
3-Jul	NAS/Y. Dupree	Round Trip GraCay/Chic	200,300	✓
3-Jul	NAS/Y. Dupree	Round Trip Chic/GraCay	230,200	✓
5-Jul	BBB/B. Wilson	One Way St. P/Chic	98,500	✓
9-Jul	CFM/T. Smither	One Way St. P/GreBay	77,500	✓
9-Jul	CFM/T. Smither	Round Trip St. P/GreBay	159,000	✓
10-Jul	CFM/T. Smither	One Way GreBay/Chic	145,200	✓
11-Jul	CFM/T. Smither	One Way Gre Bay/Fargo	142,000	✓
11-Jul	NAS/Y. Dupree	Round Trip Chic/GraCay	318,800	✓
12-Jul	PIP/C. Nottingham	Round Trip St. P/Peoria	204,400	✓
13-Jul	BBB/B. Wilson	Round Trip St. P/Chicago	197,100	✓
13-Jul	PIP/C. Nottingham	One Way St. P/Duluth	100,400	✓
16-Jul	PIP/C. Nottingham	One Way St. P/Duluth	100,400	✓
17-Jul	PIP/C. Nottingham	One Way St. P/Peoria	302,900	✓
18-Jul	BBB/B. Wilson	Round Trip GraCay/Fargo	580,300	✓
18-Jul	BBB/B. Wilson	Round Trip St. P/Chicago	269,400	✓
19-Jul	PIP/C. Nottingham	Round Trip Fargo/Duluth	144,400	✓
20-Jul	NAS/Y. Dupree	One Way St. P/GraCay	400,700	✓
23-Jul	BBB/B. Wilson	Round Trip Chic/GreBay	163,200	✓
24-Jul	PIP/C. Nottingham	Round Trip St. P/Duluth	122,700	✓
24-Jul	PIP/C. Nottingham	One Way St. P/Madiso	86,500	✓
25-Jul	PIP/C. Nottingham	Round Trip Milwau/Madiso	125,000	✓
27-Jul	CFM/T. Smither	One Way St. P/Milwau	187,100	✓
27-Jul	BBB/B. Wilson	Round Trip St. P/Fargo	294,100	✓
30-Jul	PIP/C. Nottingham	Round Trip St. P/Peoria	198,600	✓
31-Jul	NAS/Y. Dupree	Round Trip Chicago/GraCay	<u>305,200</u>	✓
Total			<u>\$5,960,300</u>	

Exhibit J
High Flying Charter Corporation
Schedule of Sales Revenue
For the Month Ending June 30, 2014



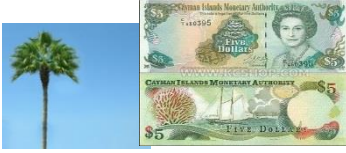
<u>Date</u>	<u>Customer/Contact</u>	<u>Description</u>	<u>Amount</u>	<u>FAA Flight Plan</u>
3-Jun	BBB/B. Wilson	Round Trip Chic/Fargo	\$210,500	✓
3-Jun	PIP/C. Nottingham	One Way Duluth/Chicago	130,900	✓
4-Jun	CFM/T. Smither	One Way St. P/Milwau	156,100	✓
5-Jun	BBB/B. Wilson	Round Trip St. P/Fargo	150,100	✓
6-Jun	PIP/C. Nottingham	Round Trip St. P/Peoria	150,400	✓
7-Jun	CFM/T. Smither	One Way St. P/GreBay	220,500	✓
7-Jun	CFM/T. Smither	Round Trip St. P/GreBay	240,000	✓
10-Jun	CFM/T. Smither	One Way GreBay/Chic	120,200	✓
10-Jun	CFM/T. Smither	One Way Gre Bay/Fargo	150,000	✓
11-Jun	NAS/Y. Dupree	Round Trip Chic/GraCay	300,600	✓
12-Jun	BBB/B. Wilson	Round Trip St. P/Chicago	371,400	✓
13-Jun	PIP/C. Nottingham	One Way St. P/Duluth	150,300	✓
13-Jun	PIP/C. Nottingham	One Way St. P/Duluth	150,800	✓
14-Jun	PIP/C. Nottingham	One Way St. P/Peoria	190,300	✓
17-Jun	CFM/T. Smither	Round Trip GreBay/Fargo	280,500	✓
17-Jun	CFM/T. Smither	Round Trip GreBay/Fargo	272,900	✓
18-Jun	BBB/B. Wilson	Round Trip Chic/Fargo	200,700	✓
19-Jun	PIP/C. Nottingham	Round Trip St. P/Duluth	260,900	✓
19-Jun	CFM/T. Smither	One Way GreBay/Fargo	191,500	✓
19-Jun	PIP/C. Nottingham	One Way Duluth/Milwau	199,300	✓
20-Jun	PIP/C. Nottingham	Round Trip Duluth/Chic	300,200	✓
20-Jun	PIP/C. Nottingham	Round Trip Duluth/Chic	300,200	✓
21-Jun	PIP/C. Nottingham	Round Trip GreBay/Madiso	300,540	✓
24-Jun	NAS/Y. Dupree	One Way St. P/GraCay	300,700	✓
24-Jun	NAS/Y. Dupree	One Way GraCay/St. P	320,900	✓
24-Jun	NAS/Y. Dupree	One Way St. P/GraCay	330,700	✓
25-Jun	BBB/B. Wilson	One Way St. P/Chicago	190,500	✓
25-Jun	NAS/Y. Dupree	One Way GraCay/St. P	350,300	✓
26-Jun	NAS/Y. Dupree	One Way St. P/GraCay	350,400	✓
26-Jun	NAS/Y. Dupree	One Way GraCay/Chicago	370,700	✓
27-Jun	BBB/B. Wilson	Round Trip St. P/Chicago	250,100	✓
27-Jun	BBB/B. Wilson	Round Trip St P/Chicago	180,500	✓
28-Jun	NAS/Y. Dupree	One Way Chicago/GraCay	200,400	✓
28-Jun	BBB/B. Wilson	Round Trip St. P/Fargo	200,110	✓
30-Jun	NAS/Y. Dupree	One Way GraCay/Chicago	320,700	✓
Total			<u>\$8,364,850</u>	



Exhibit K
High Flying Charter Corporation
Schedule of Aircraft
June 30, 2014

Aircraft Internal ID	Plane	Cost	Acquisition Date
Hwk	Hawker 4000	\$5,105,480	June 15,2014
DF	Dassault Falcon 2000 LX	\$5,050,000	May 22, 2014
GS-150	Gulf Stream 20	\$1,000,200	March 18, 2014
CE-II	Citation Eagle II	\$1,180,000	February 10, 2013
GG	Gulfstream G-IIB	\$1,100,000	November 14, 2012
BK	Beech King Air	\$1,460,580	September 30, 2012

Exhibit L Bank Statement and Standard Bank Confirmation



Crowne Royal Chartered Bank
P. O. Box 717
97 Fort Street
Grand Cayman, Cayman Islands KY1-1222
(345) 949-0202

Discretion. Security. Safety.

Bank Statement for General Account #T 1411
High Flying Charter Company

Beginning Balance 06/01/2014	\$17,759,900
Add: Deposits	2,845,400
Less: Checks Paid, Withdrawals	<u>13,491,410</u>
Ending Balance 06/30/2014	<u><u>\$7,113,890</u></u>

Detail of Deposits:

6/11/2014	wire transfer	\$300,600
6/24/2014	wire transfer	300,700
6/24/2014	wire transfer	320,900
6/24/2014	wire transfer	330,700
6/25/2014	wire transfer	350,300
6/26/2014	wire transfer	350,400
6/26/2014	wire transfer	370,700
6/28/2014	wire transfer	<u>200,400</u>
6/30/2014	wire transfer	<u>320,700</u>
Total Deposits		<u><u>\$2,845,400</u></u>

Detail of Checks Paid:

No Activity

Details of Withdrawals

\$13,491,410

STANDARD FORM TO CONFIRM ACCOUNT
BALANCE INFORMATION WITH FINANCIAL
INSTITUTIONS

High Flying Charter Company

Checking Account Balance as of 06/30/2014

#T 1411 non-interest bearing
\$7,113,890 no compensating balance

Signature *Philipě Van Andressen*

Date *5 Jul. 2014*

Philipě Van Andressen

Assistant Vice-President, International Banking

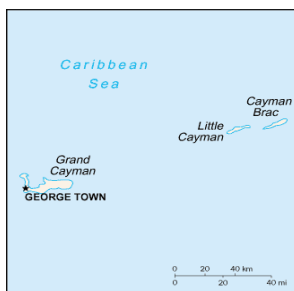


Crowne Royal Chartered Bank

P. O. Box 717

97 Fort Street

Grand Cayman, Cayman Islands KY1-1222



(345) 949-0202

Discretion. Security. Safety.

Please return to:

Smith Franklin CPAs LLP

1470 West 32nd Street

Minneapolis, MN USA 55405

Exhibit M
High Flying Charter Company
Terms and Conditions for all Charter Agreements
Effective July 1, 2013

Name of Charterer _____
Street Address _____

City _____ **State** _____ **Zip Code** _____

Date Charter Commences _____ **Date Charter Concludes** _____

Flight Schedule:

Outbound City _____
Departure Time _____
Arrival time _____

Return City _____
Departure Time _____
Arrival Time _____

One-way or Round-trip _____ **Number of Passengers** _____

Flight Price _____
Catering _____
Other Services _____
Fuel Surcharge _____
Misc. Charges _____
Total Charter Price _____

	Date and Initial
Payment Received in full	_____
Charter Aircraft Assigned	_____
Flight Crew Scheduled	_____
Cabin Crew Scheduled	_____
Catering Confirmed	_____
Additional Services Confirmed	_____

The parties hereto have caused this agreement to be executed in their names and on behalf of their respective officers thereunto duly authorized, as of this date and year.

Agreed:

High Flying Charter Company

Charterer

Name **Date**

Name **Date**

Title

Title

The following terms and conditions apply to all air charters conducted by *High Flying Charter Company*, a Minnesota corporation with offices at Holman Field, St. Paul, MN 55107, and every charter **Customer** who executes an agreement with **High Flying Charter Company**, except to the extent that the agreement contains special terms and conditions that specifically replace those set forth below.

- A. *Basic Agreement:* Customer and High Flying Charter Company agree that the following terms and conditions shall apply to all charters from the point at which High Flying Charter Company has received Customer's passengers until the aircraft arrives at the final destination, except as otherwise modified on page one of the agreement.
- B. *Charter Price, Other Charges and Related Conditions.*
 - 1. *Booking:* For each charter, Customer will sign and date the Agreement where indicated. Full payment of the contract price must be received by High Flying Charter Company prior to dispatching the aircraft.
 - 2. *Price:* Customer shall pay High Flying Charter Company the total charter price plus any additional billing per this Agreement, which shall be deemed irrevocably earned unless transportation hereunder is canceled. The price is based on the planned itinerary and anticipated charges. Additional flight time charges may be incurred in the event of weather avoidance, holding and ATC routing changes. The contract price does not include after- hours airport operation

fees, parking fees, aircraft de-icing or hanger related expenses due to ice or inclement weather, catering, or itinerary changes. Should any part of the itinerary change the trip may be re-quoted.

- 3. *Flight Crew Duty Time:* In order to comply with Federal Aviation Regulations, the parties shall provide for no more than ten (10) flight hours and fourteen (14) duty hours within any twenty-four (24) hour period. There shall be ten (10) hours of uninterrupted rest within each twenty-four (24) hour period. Duty time shall normally begin two (2) hours before each daily flight sequence and end a half (1/2) hour after each daily flight sequence, unless provisions such as a hotel room for each crewmember is provided for a rest period in between flights; otherwise, the duty time continues.
- 4. *Rest Period:* An uninterrupted rest period of ten (10) consecutive hours shall begin a half (1/2) hour after a flight sequence if that rest period includes the use of a hotel room or other suitable area for crew rest. The rest period normally ends two (2) hours prior to the schedule departure.
- 5. *Responsible Party Additional Charges:* All fuel, crew salary, and aircraft maintenance shall be paid by High Flying Charter Company. Fuel surcharges, if any, shall be paid by Customer. Customer shall pay all other charges, including but not limited to, transportation taxes, foreign taxes, catering, ground transportation, de-

icing, hangar fees for inclement weather, landing fees, airway fees, security fees, after-hours airport operations fees, parking fees, and special services requested by the Customer.

6. *Airborne Phone and Airborne Internet:* If an airborne telephone and/or airborne internet service is available and used during the charter, customer will be charged for the service.

C. *Prohibited Activities; High Flying Charter Company's Right of Refusal to Conduct Flight:*
All aircraft travelers are restricted from the following activities:

1. Smoking tobacco or other products of any type.
2. Transportation of pets or animals of any type.

Client agrees and acknowledges that High Flying Charter Company reserves the right to refuse to commence a charter trip, or to terminate a charter trip as soon as is reasonably practicable, in the event Client attempts to bring any type of pet, or to smoke on board the aircraft.

- D. *Payment:* High Flying Charter Company must receive payment in full for all anticipated charges prior to origination of the charter. High Flying Charter Company will accept the following methods of payment: (i) Wells Bank customers – via online transfer; or (ii) wire transfer; or (iii) credit card charge which shall include a four (4) percent processing fee. All Funds must be payable in US dollars and must clear High Flying Charter Company's bank account prior to dispatching the aircraft. In addition, a credit card shall be provided, or other arrangements made, by Customer for any

additional charges incurred beyond those paid for in accordance with the payment procedures herein.

- E. *Price and Payment:* The contract price has been set based on current local taxes and other public fees and fuel prices and fuel surcharges as of the date of the agreement. High Flying Charter Company reserves the right to adjust prices in the event price increases are imposed by Governmental Authorities.

F. *High Flying Charter's Rights and Responsibilities:*

1. High Flying Charter Company is responsible to exercise due diligence in the delivery of charter services but does not guarantee route, speed or specific departure or arrival dates or times.
2. High Flying Charter Company will attempt to accommodate Customer requests for specific aircraft and crew but does not guarantee the availability of any requested aircraft or crew.
3. During Charter Services, High Flying Charter Company shall, at all times, have exclusive control over the aircraft, the aircraft crew, passengers and all cargo onboard.
4. High Flying Charter Company maintains the exclusive right to refuse to transport any cargo or luggage that the company determines to be hazardous or unsafe for any reason at its sole discretion.
5. High Flying Charter Company may terminate a charter without prior notice, in its sole discretion, if the company makes a determination that transportation would be hazardous or

unsafe or in violation of any applicable rule, regulation or statute.

G. Customer Rights and Responsibilities:

1. Prior to boarding for flight departure, Customer is responsible to provide a passenger manifest including each passenger's full name and weight to High Flying Charter Company. The manifest for international flights must include date of birth, passport country of issue and passport number for each passenger.

Customer is responsible to ensure that each passenger has a proper photo ID including passports for international flights. Passengers without proper identification will not be permitted to board the aircraft.

2. Each passenger is allowed one thirty pound bag plus one carryon item.
3. Passengers may not pack any hazardous cargo or weapons in their luggage. Any weapons brought aboard the aircraft must be declared five days in advance of departure and proper permit to carry documentation must be provided to High Flying Charter Company at the time of declaration.
4. Customer is responsible for any damage or loss of property aboard the aircraft attributable to the Customers cargo or passengers.
5. High Flying Charter Company will arrange catering for your trip. Our team will strive to accommodate your specific catering request; however, at times some items may be unavailable.

6. In the event we are unable to provide a requested item we will provide a substitution of comparable quality.

H. Assigning or Sublet Aircraft Utilization:

Customer is not entitled to assign or sublet any portion of his rights under this Charter Contract without the express written permission of High Flying Charter Company.

- I. Cancellation Due to Conditions Beyond the Control of High Flying Charter Company:* The company may cancel or delay flight departure without liability if said cancellation or delay is the result of conditions or circumstances beyond the control of High Flying Charter Company including but not limited to strikes, civil unrest, riots, embargo, fire, flood, storms or epidemics.

- J. Law and Jurisdiction:* This charter shall be governed by the laws of the State of Minnesota and any dispute arising in connection with this charter or the transportation of the passengers or cargo hereunder shall be brought in State or Federal Court located in Minnesota with the prevailing party to recover its legal fees and costs.

Integration: This document, the air waybill and any agreed attachment constitute the entire contract between the parties with respect to the charter described herein and supersede all prior or contemporaneous written or oral agreements. This agreement may only be modified or amended by the express written consent of all parties.

Customer Initials: _____

Exhibit N

First Assignment for Case

Please prepare for and conduct an interview with the client contact.

Background. This is an individual assignment. You, as the audit senior on the HF audit, will interview a person portraying one of the client contacts, Mr. Kemper or Ms. Walsh. To prepare for this interview, you should carefully review and analyze the Exhibits. For example, you could look for unusual amounts, patterns and activities, while considering the client and industry.

Required. Compile a list of questions to ask the client person. When you conduct the interview, ask these questions. Take notes. Be sure to follow up on answers that are confusing, incomplete or inconsistent. In the follow-up class session, you will be asked to report on what you did and did not learn from the client. You will be asked to reflect on how you could have acquired more and better information from the client.

Exhibit O

Second Assignment for Case

Please reflect on your interview experience.

Background. This is a team assignment. Your professor will put you in a team. Please prepare the responses with word processing.

Required. Prepare responses to the questions below. Submit your paper in the office before you leave for the day. We will discuss the responses in our follow-up session.

1. How did you feel when you were interviewing your client person?
2. Did you get the information you needed? Please explain.
3. What questions/follow-ups do you have for your audit senior, manager, or partner?
4. What are your concerns, especially, in relation to this specific audit?

Exhibit P

Third Assignment for Case

Please evaluate and analyze possible issues and problems at the client.

Background. This is an individual assignment. Please identify, analyze and discuss unusual amounts, patterns and activities at the client. Please prepare the responses with word processing and spreadsheets.

Required. Please answer the following questions. Provide details and analysis as appropriate.

1. Analyze profitability. Do you see any unusual activity related to profitability? If so, what?
2. Consider the prices charged for flights. Do these seem reasonable? Why or why not?
3. Evaluate the bank statement and bank confirmation. Do these amounts seem reasonable? Why or why not? Does ending cash tie to the balance sheet? What concerns might you have about cash?
4. Consider the relationship between cash and sales revenue. What concerns might you have about this relationship?
5. Are there any related party transactions? If so, who or what is involved with this transaction? Why is this a concern?
6. How would you characterize the environment at the client? Does this characterization lead to any concerns?
7. Do you have specific concerns about the top executives at this client?
8. Consider various analytical procedures which could be helpful in this situation. Identify these analytical procedures, and prepare them. Comment on what you see.
9. Consider property, plant and equipment (PPE). Do the items of PPE look reasonable? If not, discuss what looks unusual.

Note to Instructors: If you would like the Teaching Notes to this case, please contact the corresponding author.